1. **Procedure Title**: Classification of external lease agreements, rent and use charges.

2. **Procedure Purpose and Effect**: This procedure describes University, State and Federal requirements associated with external lease agreements, rent and use charges for the purpose of classifying accounting and user obligations.

3. **Application of Procedure**: The University can be obligated several ways through an external lease agreement. Depending on the type of agreement, it must be reviewed by Business and Financial Services for classification and reporting on the financial statements. This sets the procedure of review by Business and Financial Services for the proper classification and reporting of leases.

4. **Exemptions**: None

5. **Definitions**: 
   
   A. **Lease**: Under Financial Accounting Standard (FAS) 13, an agreement conveying the right to use property, plant and equipment for a stated period of time.
   
   B. **Capital Leases**: Leases of buildings or equipment that meet one of the following criteria:
      
      1. The lease transfers ownership of the property to the lessee (CSU) by the end of the lease term.
      2. The lease contains a bargain purchase option.
      3. The lease term is equal to 75 percent or more of the estimated economic life of the leased property. However, if the beginning of the lease term falls within the last 25% of the total economic life of the leased property, including earlier years of use; this criterion shall not be used for purposes of classifying the lease.
      4. The present value at the beginning of the lease term of the minimum lease payments excluding that portion of the payments representing executory costs such as insurance and maintenance equals 90 percent of the fair value of the leased property.
   
   C. **Operating Lease**: Leases of 12 months or longer and not qualifying as a capital lease. These leases are expensed in the current operation period.

   D. **Rent**: Payment for the use of land, buildings or equipment where the obligation is for less than 12 months.

   E. **Use Charge**: The amount paid by one University department or account for the use of buildings or equipment owned by another University department or account.

6. **Procedure Statement**: 
   
   Lease agreements are contractual agreements and must adhere to the requirements outlined in Section 8 of the Purchasing Manual. Only those individuals authorized to sign contractual agreements are authorized to approve lease agreements.
Lease agreements are University obligations and must be recorded as such, therefore all lease agreements must route through Property Management.

All proposed lease agreements must be accompanied by a repayment plan covering the entire lease term. Repayment plans are submitted to Property Management in Business and Financial Services.

The use of Federal funds for lease payments must be in accordance with Federal requirements.

Leased property may not be sold or otherwise disposed of prior to the termination of the agreement.

The definitions provided above should be used to distinguish between a capital lease, operating lease, rent or a use charge.

Property acquired via a capital lease is depreciated according to the University’s useful life criteria, unless the lease qualifies under criteria C or D (under the capital lease definition). The property is depreciated over the shorter of the life of the lease or the life of the asset.

7. **Reference and Cross-References:** FASB 13, 98; OMB Circular A21, GASB 20, GASB 34, CSU Purchasing Manual

8. **Forms and Tools:**

For detailed procedures contact Business and Financial Services.
http://busfin.colostate.edu/guides.aspx